

2 November 2023

Australian Energy Market Commission
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Sydney South NSW 1235

Submitted by email to aemc@aemc.gov.au

Project number: EPR0091

Review of the operation of the Retailer Reliability Obligation Draft Report

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Draft Report from the Australian Energy Market Commission (the Commission) on Review of the operation of the Retailer Reliability Obligation.

Snowy Hydro welcomes the recommendations to improve the operation of the 'retailer reliability obligation' (RRO) as these are likely to improve the RRO by reducing costs for retailers in complying with the RRO and therefore, reducing costs for consumers. In particular we:

- support moving the T-1 NCP compliance date to T and continue ex-post testing only if a reliability gap occurs, We agree this will reduce regulatory burden and provide all parties with a clearer view of their contracting position and broader market position ahead of the declared period
- support allowing AEMO to revoke a T-1 instrument when their ESOO updates identify the gap has disappeared; and
- support removing the voluntary book build

The RRO was never intended to remove all possibilities of shortfall in the NEM and the Market Liquidity Obligation (MLO) has provided the transparency needed. . Snowy Hydro agrees with the ASX that *"the MLO supports price discovery in SA, through establishing transparent prices of what sellers are willing to accept, and what buyers are willing to pay during the MLO windows – which assists with market discovery outside of the windows"*. The MLO also helps establish pricing in other contracts as participants can use changes in the MLO contract prices as a reference, for both futures contracts and OTC deals .

The Commission notes that further consideration of broader market liquidity in South Australia (SA) as part of a separate review may contribute to the National Energy Objectives by supporting efficient price outcomes. Snowy Hydro supports the comments from other participants that the commission should look at providing incentives for providing market making services, to recognise the costs associated with MLO obligations.

The complexity of the NEM is currently well balanced with certainty and simplicity that is needed for contract markets. There are reforms however being put forward that risk disrupting liquidity. The modified transmission access reform models through the Congested Relief Market (CRM) and Priority Access (PA) risks increasing the complexity of the dispatch and settlement processes and undermining liquidity in the financial market. The Commission's approach to the spot market is overly focused on allocative efficiency within a single 5-minute interval and it has failed to take into account the impact of the financial market on bidding behaviour. A more sophisticated understanding of the operational and contractual environment that participants operate in would assist the Commission with rule changes and reforms otherwise the re-opening of the MLO. would be required.

In the current market, there is more OTC volume going on in non flat structures so the market is adapting separately to the MLO. Participants who want to trade are setting up OTC lines and

looking for the products they want, & and just looking at the ASX volumes is giving less and less of a picture of traded volumes and products over time.

In addition to this, the Commission did not address the impact of the previous increase to the APC on the contracts market and must not pick and choose when to consider the contract market. In our submission we highlighted that the decision in 2022 to immediately double the APC caused severe difficulties for participants who had sold \$300 Caps on the basis of the then \$300/MWh APC. The APC rule change however did not address or adequately understand the role of forward contracting in the energy market.

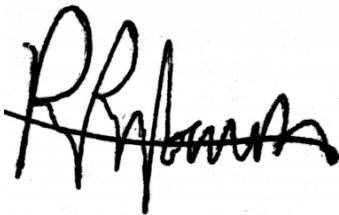
As a final point, we recommend the Commission adopt a cautious approach when considering changes to the framework to broaden the range of eligible demand-side management contracts, the Energy Users Association of Australia (EUAA)'s recommendation to allow AEMO to open its Demand Side Participation Information Portal could be opened more frequently is a more reasonable approach at this time, particularly when the firmness of the full range of demand response measures remains unclear. For example, we note AEMO's revisions to its demand response forecasts in its 2023 Electricity Statement of Opportunities.

About Snowy Hydro

Snowy Hydro Limited is a producer, supplier, trader and retailer of energy in the National Electricity Market ('NEM') and a leading provider of risk management financial hedge contracts. We are an integrated energy company with more than 5,500 megawatts (MW) of generating capacity. We are one of Australia's largest renewable generators, the third largest generator by capacity and the fourth largest retailer in the NEM through our award-winning retail energy companies - Red Energy and Lumo Energy.

Snowy Hydro appreciates the opportunity to respond to the Draft Report and any questions about this submission should be addressed by email to geoff.hargreaves@redenergy.com.au or panos.priftakis@snowyhydro.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Panos Priftakis".

Panos Priftakis
Head of Wholesale Regulation
Snowy Hydro